



## **KPMG LLP – Audit Board – Terms of Reference**

### **1 Purpose**

- 1.1. The Audit Board is established as a permanent committee of KPMG LLP under the LLP Agreement. Its purpose is to provide independent oversight of the KPMG Audit practice ("KPMG Audit" or the "Audit Practice"), providing independent oversight through its composition and involvement of external members including independent Audit Non-Executives. Its role involves overseeing the stewardship, accountability and leadership of the Audit Practice providing clear sighted counsel on the implementation of the strategic direction of the Audit Practice and alignment to its Vision, Values and Purpose. In doing so the Audit Board seeks to balance the interests of the various stakeholders to whom it is responsible in order for the Audit Practice to have a successful and sustainable future, including with a focus on maintaining and improving Audit Quality.
- 1.2. The Audit Board oversees, monitors and provides independent challenge to KPMG Audit to ensure that the Firm discharges its public interest obligations to investors and other key stakeholders such as regulators, as well as to those entities which it audits (audited entities), and to employees in the Audit Practice. It is an oversight board; its responsibilities do not extend to making management or operational decisions, which are the responsibility of the Audit Executive and, ultimately, the LLP Board and nor does it form part of the system of internal quality control over the individual audits performed by KPMG Audit. It is not involved in regulatory enforcement matters with respect to individual audits performed by KPMG Audit.
- 1.3. The Audit Board oversees, reviews and makes recommendations to the LLP Board on the adequacy of the Firm's approach for meeting the principal objectives in the Audit Firm Governance Code as they relate to the Audit practice:
  - 1.3.1. to promote Audit Quality, including the Firm's strategy, culture, investment and remuneration in support thereof;
  - 1.3.2. to help the audit practice secure its reputation more broadly, including:
    - (i) actual or perceived conflicts of interest, ethics and Independence, the regulation of Audit Firms and the Audit Profession, including:
      - the regulatory objectives and principles of Operational Separation; and
      - the Audit Firm Monitoring and Supervision regime; and
  - 1.3.3. to reduce the risk of audit practice failure; including oversight of:
    - (i) a sustainably profitable and viable audit business; and
    - (ii) the attractiveness of the audit profession.

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## **2** Authority

- 2.1 The Audit Board is established by the Board of KPMG LLP (the “LLP Board”) from which it derives its authority to discharge those responsibilities set out in these Terms of Reference and to which it regularly reports, with a focus on improving Audit Quality and the interaction of the Audit Practice with the rest of the Firm in accordance with applicable regulatory principles for its operational separation within the Firm.
- 2.2 The Audit Board has authority to review any matter within its Terms of Reference and to obtain such information as it may require for such purpose from any member of the LLP, officer or employee.

## **3** Constitution

### **3.1** Chair

- 3.1.1 The Chair of the Audit Board will be appointed by the Chair of the LLP Board and ratified by the LLP Board. Such person shall be an independent Audit Non-Executive who shall not chair any other governance body within the Firm.
- 3.1.2 In the absence of the Chair of the Audit Board, the remaining members present shall elect one of themselves to chair the meeting, provided that such person shall be an independent Audit Non-Executive.
- 3.1.3 If the Chair of the Audit Board declares a conflict of interest, or the Audit Board decides that such individual has a conflict of interest, then the members of the Audit Board shall appoint a member of the Audit Board to chair the meeting or the relevant section of the meeting, provided that such person shall be an independent Audit Non-Executive.
- 3.1.4 The Chair shall not be a member of the LLP Board or the Public Interest Committee but shall be entitled to attend meetings of both in a non-voting capacity.

### **3.2** Membership

- 3.2.1 The Audit Board shall comprise:
  - (i) the Chair of the Audit Board (an independent Audit Non-Executive);
  - (ii) at least two other independent Audit Non-Executives; and
  - (iii) at least two Elected or Nominated Board Members provided that at least one shall be an Elected Board Member and at least one shall have recent and relevant experience as a practicing auditor.
- 3.2.2 The number of independent Audit Non-Executives shall always exceed the number of Elected and Nominated Board Members on the Audit Board.

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- 3.2.3 At least one of the independent Audit Non-Executives shall have relevant experience of audit at an appropriate level of seniority, either as a former auditor or consumer of audit services.
- 3.2.4 One of the independent Audit Non-Executives may be an Independent Non-Executive, member of the Public Interest Committee.
- 3.2.5 The Head of Audit shall be invited to attend each Audit Board meeting (subject to their not attending for scrutiny discussion relating to the Head of Audit or the Audit Executive, if the Chair of the Audit Board so requires).
- 3.2.6 The Ethics Partner is entitled to attend any meeting of the Audit Board and shall have access to all agendas and papers of the Audit Board.
- 3.2.7 The Global Head of Audit shall be invited to attend each Audit Board meeting.
- 3.2.8 A Regional Chair shall be invited to attend each Audit Board meeting.
- 3.2.9 Any Independent Non-Executive (member of the Public Interest Committee) may attend meetings of the Audit Board.
- 3.2.10 Additional members of the Audit Board shall be appointed by the LLP Board on the joint recommendation of the Chair of the LLP Board and the Chair of the Audit Board.
- 3.2.11 Members can be co-opted onto the Audit Board (as determined by the Chair of the Audit Board) as the need arises to help fulfil the duties and obligations of the Audit Board. These appointments (including the duration) shall be made by the LLP Board on the recommendation of the Chair of the Audit Board.
- 3.2.12 Members may be removed from the Audit Board at any time before the end of their term by the LLP Board.
- 3.2.13 Other attendees may be invited to attend meetings at the discretion of the Chair of the Audit Board.

### 3.3 Duration of appointments

- 3.3.1 Unless otherwise determined by the LLP Board, the duration of appointments of independent Audit Non-Executives as members of the Audit Board shall be for a period of three years which may be extended by the LLP Board for an additional two terms of three years each, subject to a maximum nine years in aggregate.
- 3.3.2 Unless otherwise determined by the LLP Board, the duration of appointments to the Audit Board of Elected and Nominated Members of the LLP Board and any co-opted members shall be for a period of up to three years which may be extended by the LLP Board for an additional period of two years.

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### 3.4 Secretary

- 3.4.1 The LLP Board Secretary or their nominee shall act as Secretary to the Audit Board and attend all meetings.
- 3.4.2 The Secretary shall record the proceedings and decisions of the Audit Board meetings and the minutes shall be circulated to all members and attendees, as appropriate, taking into account any conflicts of interest that may exist.

## 4 Proceedings of Meetings

### 4.1 Frequency of Meetings

- 4.1.1 The Audit Board shall meet at least six times per annum and otherwise as required.
- 4.1.2 Meetings of the Audit Board may be called by the Chair of the Audit Board at any time to consider any matters falling within these Terms of Reference.

### 4.2 Quorum

- 4.2.1 Any three members of the Audit Board may form a quorum, provided that a majority in attendance are independent Audit Non-Executives.
- 4.2.2 A duly convened meeting of the Audit Board at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Audit Board.

### 4.3 Attendees

- 4.3.1 Only the members of the Audit Board, other Elected or Nominated Members of the LLP Board, Independent Non-Executives and the Ethics Partner have the right to attend Audit Board meetings.
- 4.3.2 Members of KPMG Audit leadership responsible for Audit Quality and risk management may attend each meeting on invitation of the Chair of the Audit Board.
- 4.3.3 Any member, officer or employee of the LLP may attend at the invitation of the Audit Board Chair and they may collectively or individually be requested to withdraw from meetings of the Audit Board if required to do so by the Chair of the Audit Board.

### 4.4 Resolutions on recommendations and observations

- 4.4.1 The Audit Board shall reach decisions by a simple majority of those voting on the issue in question. If the numbers of votes for and against a certain proposal are equal, the Audit Board Chair shall have a casting vote.
- 4.4.2 Any resolution evidenced in writing or by electronic or voice recognition means, by such member or members of the Audit Board as would have been necessary to pass such resolution had all members of the Audit Board been present at a meeting consider such resolution, shall be valid and effective as if it had been passed at a meeting of the Audit Board duly

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convened and held, provided that notice and details of the proposed resolution have been given in advance to each member of the Audit Board.

5 Conflicts of interest of individual Audit Board members

If a member of the Audit Board has a conflict of interest, they shall immediately disclose this to the Chair of the Audit Board and where appropriate recuse themselves from any deliberations or votes of the Audit Board concerning the relevant subject-matter.

6 Oversight Responsibilities

The Audit Board shall under delegation by the LLP Board (which retains all relevant decisions and responsibility for the operations of the Audit practice and implementation of its strategy, policies and procedures) have the following responsibilities.

6.1 Monitoring Audit Quality

6.1.1 Monitor the appropriateness of the Firm's policies and processes supporting Audit Quality including the focus of people in the Audit Practice on the delivery of high-quality audits in the public interest and make recommendations to the LLP Board accordingly.

6.1.2 Monitor the drivers that contribute to Audit Quality to assess if KPMG complies with, and how it performs relative to, standards expected by investors, regulators and other stakeholders, including partners and colleagues in the Audit Practice, and make recommendations to the LLP Board accordingly.

6.1.3 Review the overall targets (i.e., not targets related to individual audit engagements) set by the Audit Executive for Audit Quality to ensure that they are robust and meet regulator expectations and make recommendations to the LLP Board accordingly.

6.1.4 Oversee the Audit Quality framework, and challenge management to ensure that the framework is sufficient to drive good quality audits and meets the expectations of investors, regulators and other stakeholders including partners and colleagues in the Audit Practice.

6.1.5 Review the performance of KPMG Audit and overall audit quality, including the adequacy and quality of resourcing.

6.1.6 Monitor the efficacy of the continuous improvement initiatives (including root cause analysis) in connection with Audit Quality, and in particular the elements designed to meet targets set by the FRC for AQR results, and monitor performance against the plan.

6.2 Monitoring culture and behaviours

Oversee culture and behaviours within the Audit Practice and the extent to which they are supportive of the public interest, including their role in ensuring Audit

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Quality.

### 6.3 Conflicts of Interest and Independence

- 6.3.1 Monitor and make recommendations to the LLP Board in respect of the adequacy and effectiveness of KPMG Audit's arrangements for managing actual, potential or perceived conflicts of interest and independence.
- 6.3.2 Monitor and make recommendations to the LLP Board in respect of the effective management of actual, potential or perceived conflicts of interest internally within the Firm or its governance and leadership that could adversely impact the delivery of Audit Quality by the Audit Practice.
- 6.3.3 Receive and review a report at least twice a year from the Ethics Partner in respect of ethics and independence matters.
- 6.3.4 Review the criteria and decision-making processes of the Audit Practice in terms of tendering for new audit work and make recommendations (including where required escalating public interest concerns) to the LLP Board which is the ultimate governance body with respect to tendering or retendering decisions.

### 6.4 Audit Practice Strategy

- 6.4.1 Review and challenge the strategy of the Audit Practice ("the Strategy") as developed (or modified) by the Audit Executive and, if not satisfied, raise concerns or objections to the LLP Board or make recommendations considering:
  - (i) whether the strategy is designed to ensure appropriate levels of Audit Quality are achieved and maintained;
  - (ii) the Strategy's consistency with the pursuit of the regulatory objectives and desired outcomes in the context of the operational separation of the Audit Practice within the Firm and the Audit Firm Governance Code;
  - (iii) the Strategy's adequacy and responsiveness to challenges in the audit profession; and
  - (iv) the Strategy's alignment to the Firm's Vision, Values and Purpose.
- 6.4.2 Review and challenge the development by the Audit Executive of the operational plan designed to implement the Strategy.
- 6.4.3 Monitor that management is executing the Strategy as expected.
- 6.4.4 Monitor and make recommendations to the LLP Board in respect of material strategic and regulatory matters impacting the profession and the Audit business.

### 6.5 Investments

- 6.5.1 Review and challenge the Audit Executive in respect of the development of

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the budget for investments in the Audit practice to deliver the Strategy and, if not satisfied, raise concerns to the LLP Board.

6.5.2 Monitor the implementation of key investments in Audit to fulfil the Strategy.

6.5.3 For the avoidance of doubt the LLP Board approved Investment Framework applies to proposed investments in the Audit Practice.

## 6.6 Risk Management

6.6.1 Review and monitor the adequacy of the Audit Practice's risk management framework, including the identification, management and reporting of risks and the appropriateness of its risk appetite (including in respect of accepting higher risk audits); and make recommendations to the Board Risk Committee in respect thereof.

6.6.2 Review information sufficient to satisfy itself that Audit is being managed within the agreed risk appetite.

## 6.7 Engagement with Regulators

Monitor the appropriateness and adequacy of KPMG Audit's interaction with external regulators and investors, to ensure that it is engaging with regulators in an open and positive way, consistent with regulators' expectations.

## 6.8 Operational Separation

6.8.1 Oversee the operational and financial performance of KPMG Audit to ensure that it meets the FRC's principles for Operational Separation.

6.8.2 Review the policies and procedures related to performance management, promotion and remuneration, to ensure that they are aligned to appropriate quality outcomes and the principles for Operational Separation.

## 6.9 Remuneration Committee

6.9.1 Establish a Remuneration Committee of the Audit Board, whose membership shall be exclusively independent Audit Non-Executives, and approve such committee's Terms of Reference. The Remuneration Committee shall oversee (including where relevant on a no-names basis):

- (i) the policy and processes for Audit partner remuneration and their implementation, in particular to ensure their consistency with regulatory objectives and requirements, as well as to support Audit Quality; and
- (ii) the criteria and selection processes for both Audit partner promotion and designation of Responsible Individual status.

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6.9.2 In its oversight capacity, the Remuneration Committee will monitor, assess and apply scrutiny to anonymised data with respect to the appropriate application of the respective policies and criteria for Audit partner remuneration and promotion.

6.9.3 For the avoidance of doubt, the Remuneration Committee shall not be involved in any way in decision-making in respect of any specific promotion or any given Partner's remuneration, which shall follow the firmwide governance procedures established by the LLP Board.

#### 6.10 Audit Leadership

6.10.1 Review candidates for appointment to the role of Head of Audit (including through interviews) and, provide feedback as to whether or not the proposed candidates meet the attributes and qualities for that role to the Chief Executive and the People Committee, who have the relevant approval authorities with respect to such appointment.

6.10.2 Provide input to the People Committee on the performance of the Head of Audit each year.

6.10.3 The Audit Board may, where it has concerns, recommend to the KPMG LLP Board that the Head of Audit be removed from their post. The decision as to whether the Head of Audit is to be removed from their post will be made by the KPMG LLP Board and will be communicated to the Audit Board.

#### 6.11 Audit Investigations

Monitor trends and lessons learned arising both from the Firm's matters under case examination, review or investigation by the FRC, ICAEW, ICAS, PCAOB or other relevant regulator, and from regulatory enforcement outcomes involving other firms that are in the public domain.

#### 6.12 General

6.12.1 The Audit Board shall review the Audit Quality section of the annual report and make recommendations to the LLP Board on it.

6.12.2 The Audit Board shall make recommendations to the LLP Board with respect to material communications to regulators and KPMG's responses to relevant consultations.

6.12.3 The Audit Board shall assume no responsibility (as the Audit Board or individually as its members) for supervision nor have direct management responsibility for audits, quality control of audits or the setting of audit partners' remuneration.

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## 7. Reporting

- 7.1 Minutes of each Audit Board meeting will be disclosed at the following meeting of the LLP Board. The Chair of the Audit Board shall report to the LLP Board after each meeting on matters within its duties and responsibilities.
- 7.2 The Audit Board shall compile a report of the work of the Audit Board in discharging its responsibilities for inclusion in the Transparency Report, including a description of significant issues dealt with by the Audit Board.
- 7.3 The Audit Board shall work and liaise as necessary with other Committees of the LLP Board and with the Public Interest Committee.

## 8. Governance and Resources

- 8.1 The Audit Board shall, via the Secretary to the Audit Board, make available to new members of the Audit Board a suitable induction process and, for existing members, ongoing training as discussed and agreed by the Audit Board.
- 8.2 The Audit Board shall conduct an annual self-assessment of its activities under these Terms of Reference and report any conclusions and recommendations to the LLP Board and, as part of this assessment, shall consider whether or not it receives adequate and appropriate support in fulfilment of its role and whether or not its annual plan of work is manageable.
- 8.3 The Audit Board shall in making recommendations and observations give due regard to any relevant legal or regulatory requirements, and associated best practice guidance, as well as to the risk and reputation implications of its decisions (liaising where relevant with other Committees).
- 8.4 The Audit Board shall have access to sufficient resources in order to carry out its duties and have the power to engage the Firm's Internal Audit function as well as independent counsel and other professional advisers and to invite them to attend meetings.
- 8.5 In the event of any significant and serious disagreement between the Audit Board and the LLP Board with respect to any matters within the scope of the Audit Board's Purpose, Authority and Responsibilities as set out in these Terms of Reference, the LLP Board shall ensure that such disagreement shall be reported within the Firm's next following annual Transparency Report. With regard to any dispute between the Audit Board and the LLP Board with respect to the decision to include such a report in the Transparency Report, the matter shall be referred to the Public Interest Committee which shall, in the first instance, seek to facilitate resolution of the dispute; failing such resolution, the Public Interest Committee shall determine whether or not the disagreement is so significant and serious as to justify its being reported in the Transparency Report in the public interest.

## 9 Terms of Reference

The Audit Board shall annually review its Terms of Reference and may recommend to the LLP Board any amendments to its Terms of Reference.

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